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the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

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be a separate institution, a change which did not substantially alter the former position. In it, the savings banks of the country, including the Postal Savings Bank, were merged. Besides collecting deposits through its network of branch offices, it acts as a bank for private enterprise. It grants short-term credits to small-scale industries and retail trade. But the credits granted fall short of the deposits collected, and the excess is transferred to the National Bank to support the credit operations of the latter. According to an expert statement the direct lending of the Savings Institution amounted to hardly 10 per cent of total deposits in July 1949.

(4) The Bank of Co-operative Societies, a long-established centre for co-operative credit, acts as the bank for agriculture. Though it receives deposits, this branch of its activity has so far shown poor results, and it depends, therefore, for capital resources on the National Bank.

Outside the Hungarian banking system the Russian-owned Bank already referred to enjoys a status of *de facto* extra-territoriality. It is the banker of the various Russian enterprises, headed by an agency for the management of Russian property. The Bank was originally Austrian-owned, and was taken over by the Russians in pursuance of their interpretation of the Potsdam Agreement. Other foreign banks were wound up, as no scope was left for their activities.

From any description of the banking system of Soviet Russia it is clearly seen that the Hungarian Communists faithfully fulfilled their task of copying the Russian organization. The State Bank, as the sole institution for short-term credit, and around it a few specialized agencies as distributors of the funds made available for planned investments, are the characteristics of the credit system adopted in the Soviet Union in 1930.[1] However, when building up the new system, there was a fundamental difference between what had to be done in Russia on the one hand and what in Hungary on the other. The Russian Bolsheviks had to fill a vacuum, as vast territories under their rule were without any credit organization. The Hungarian Communists had, on the contrary, first to destroy a fairly well developed credit system before introducing the new pattern.

It was a peculiar incident in the course of the Three-year Plan that the pattern of economy changed during its progress. To initiate these changes was a daring experiment, which amounted, in fact, to an alteration of the steering mechanism while under way.

The following table shows the progress of nationalization in the course of the Three-year Plan.

[1] Alexander Baykov, *The Development of the Soviet Economic System: an essay on the experience of planning in the U.S.S.R.* (Cambridge University Press, 1946).

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647 with a view to a smoother co-operation. The Supreme Economic Council was then superseded by a People's Economic Council, with the National Planning Department, the Central Statistical Office, the Central Control Office[1] and the Office for Man-Power Economy under its direct control. The President of the Council is the member of the Cabinet responsible for economic planning. He is a super-Minister, for under his command are the Ministries for Finance, Agriculture and Food, Heavy Industry, Light Industry, Public Works, Home Trade, and Foreign Trade, i.e. all Government Departments concerned with economic affairs. As previously, the chief executive for planning was the President of the Planning Department, a member of the People's Economic Council with Cabinet rank.

ADMINISTRATION OF CREDIT

652 452 [647] A national credit plan was to be drawn up monthly, based on the financial plans of the enterprises, which had to be submitted in support of credit applications. The individual proposals were first screened by a preparatory committee consisting of the Ministry of Finance, the Planning Department, and the National Bank. The draft plan prepared was then discussed and possibly modified in the Inter-departmental Committee for Credit Allocation (p. 36), and brought subsequently before the Supreme Economic Council for final decision. There the credit plan was considered in connexion with the monthly budget estimate. The amount of money issued during the month was decided on with reference to the balance of the budget, the excess of credits to be granted over repayments, and the estimated increase of deposits (taking into account the sales and deliveries of foreign exchange as a minor factor). The Supreme Economic Council, anxious to avert inflation, fixed a ceiling for the issue of bank notes from month to month. It was understood, in principle, that a gradual expansion in accordance with the growth of production should be permitted. But the Plan dictated a quicker pace. The members of the Council, when confronted with the problem of reconciling conflicting economic and financial considerations, had to choose between reducing budget expenditure and curtailing credits. Among considerable items of budget expenditure investment was the most elastic. At times the Planning Department made concessions by postponing one or another of the projected works or parts of them. But the Council generally refrained from resisting the expan-

[1] An organization created on the Soviet pattern with the task of supervising the finances of public administration and of public enterprises.

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sionist tendency of the Planning Department. It preferred to fix the limit of the note issue below what the Plan might be expected to require, without making a corresponding cut in the budget expenditure for the capital programme. Consequently credit had to be restricted to avoid exceeding the limit. When extreme pressure was felt later in the month, the Council might revise the limit. But even so credit did have to be restricted.

The following summary of monthly credit plans shows typical seasonal changes in requirements. They are based on details thrashed out in successive committee stages.

	1948	
	August	*December*
	in million forint	
Agricultural loans	66·7	43·9
Advances to agencies for food supply	179·6	1·9
Loans to rural co-operative shops	36·6	3·0
Industrial credits	118·2	73·0
Credits for financing foreign trade	65·0	65·0
Loans for Plan investment	30·0	30·0
Others	10·0	10·0
Total:	506·1	226·8

Before applications for credit were approved by the Credit Committee, the uses to which the amounts to be raised would be put were scrutinized, and their conformity with Plan objectives was, of course, checked. Control, however, was not restricted to this prior checking of the credit applications. Accountants of the Credit Committee could at any time make inquiries as to the correct use of the amount borrowed. Departure from the prescribed line constituted a serious case of sabotage. The inclusion of a representative of the Raw Materials Board in the Credit Committee provided a link between the availability of raw materials and the allotment of credits.

Though every loan granted had to be within the Plan, applicants had no guarantee that they would obtain the amounts needed for the fulfilment of their obligations under the Plan. The ceiling for note circulation, determined by the Supreme Economic Council, necessitated a selection even among credits which were needed to carry out Plan objectives. But a postponement of the granting of a loan was not accepted as an excuse for slowing down production. The enterprise concerned was expected to find ways and means of expanding its production in conformity with the Plan. In some cases a way out was found by forced sales which depleted stocks. This expedient worked, however, only during the first phase of the Plan, when a wholesale trade with a capital of its own was still in existence. The

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471 worked, the scanty reports leaking out after 1948 indicate that its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

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Special Investment Control

433 Imperfect synchronization of the delivery of capital goods with the rhythm of plant expansion was a difficulty hard to overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

454 The Investment Bank was in charge of the permanent control of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

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Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

454 The control of investment in agriculture and small-scale
474 industry was handed over to the National Credit Institute of
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Co-operative Societies. As the centre of the rural credit co-operatives, it disposed of a network of branches over the countryside. These branch offices were insufficiently staffed with experts even before their political reorganization, which meant the expulsion of the wealthy peasants. Little is known of the extent to which the newly-established Rural Credit Councils (i.e. the Boards of the local co-operatives) were able to assist the authorities in keeping investment in agriculture in line with the Plan. The Councils were militant political bodies rather than committees of experts.

A RIGID SYSTEM

The conception of the planners was to make the economy effective by imposing a multiple system of controls on it. The National Planning Department, assisted by the different Government Departments, was the principal agency of the controls. Yet with all its wide powers, the efficacy of the Planning Department in supervision and direction was limited. Another centre of control was created by the reorganization of the National Bank. The establishment of the single-account system seemed to offer the planners a device for checking economic activities in all their successive stages.

Tightness of control was thought to be essential for the execution of the Plan. But according to the original conception control was confined to production. The Plan, as drawn up in 1947 on the basis of a system of mixed economy, envisaged a detailed regulation of production, but it was assumed that the flow of consumer goods would roughly correspond with the creation of purchasing power through increased production. This assumption failed to take account of the vicissitudes of price controls and wage policy. During its first phase the Plan did not extend its control to the activities intermediate between production and consumption, i.e. it did not apply to trade. Wholesale dealers (and even less, of course, the retail traders) were not bound to submit plans concerning their prospective turnover, though they had to report on man-power employed, or apply for approval of investment in so far as it exceeded the 200,000 forint mark. The existence of this stratum preserved a certain resilience within the economy. It proved, in a way, helpful in overcoming difficulties in the administration of the Plan, though the activities of the dealers may, in some instances, have been a nuisance to the planners. When the ceiling for the bank-note circulation prevented the allocation of credit required for carrying out production demanded by the Plan, the concerns affected some-

with certain permanent social welfare purposes (public charity, documents for paupers, physical training etc.).

Social credit grants.

The vast credit schemes launched by the Government were mostly of social significance. The most extensive debt adjustment in Hungary since the first world war was aimed at the promotion of the social welfare of the agrarian population, which was gravely affected by the world-wide agricultural slump. The indebtedness of farmers and the fall of prices was so great that it was beyond the Government's ability to remedy the situation according to established financial and economic policies. In the beginning the Government came to the aid of the farmers by lowering the interest rates and prohibiting public sales of real estate. Later the policy of protected ownership was instituted, and the Government extended the amortization of farm debts over a longer period.

Part of the short term bank loans contracted by smaller farmers were paid by the Government. Indebted farmers owning less than 70 acres of land were especially favoured by the adjustment of their debts. The social implications of the protected ownership system will be discussed in the chapter dealing with agriculture. [1]

Interest rate reduction.

When lowering the interest rates on farm debts the prime consideration was that the burden of the poor should be lighter than that of the rich. We mention here that the general lowering of interest rates benefited the whole community, and further, that the interest rates on small loans contracted with state pawnshops were reduced to a third.

[1] [cf. category 116, pp 39-51 -- Analyst]

Loans to small industries and to shopkeepers.

652 The following Government activity in the credit field
452 assisted the social and economic strengthening of certain classes: 30 million pengős have been loaned to small industries up to date. Artisans not able to provide security required by the banks received loans from the Government of 300 to 500 pengős at a very low rate of interest. To aid the reorientation of commercial life the Government is extending credits up to 30 million pengős to shopkeepers. A specially reduced rate of interest is charged to shopkeepers with large families.

Other social welfare credit activities.

To alleviate unemployment among the educated classes and to ensure the replenishment of their ranks, financial assistance was given to deserving educated men in order to set them up in gainful occupations. Here is a brief summary of other public credit schemes: Loans granted to civil servants totalling almost 30 million pengős up to date; advance interest payments to holders of war bonds amounting to 60 million pengős; credits granted to the banks of the reoccupied territories in order to stabilize their finances; credits to relieve the difficult financial position of the insurance companies; and financing the different social welfare activities instituted since the war to provide food and clothing for the needy.

Housing Projects.

652 Public credit policy evidenced noteworthy results in
362 helping to solve the housing problem. Some of the housing
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projects are nearing completion, others are still being formulated. The most important are the following:

LAB. Loans.

Act XLI of 1930 made it possible for civil servants and small investors to contract long term building loans on advantageous terms. During the last 11 years 45, 300,000 pengős have been advanced for this purpose, and out of this amount 6000 family homes and more than 80 large apartment blocks were built. The project was financed by the issue of Government bonds. These were taken up by the banks and social insurance companies.

Building in villages.

More than a quarter of a million building lots were allocated among the villagers during the first land reform. In 1927 the Co-operative Rural Building Society was established by law. This society loaned more than 60 million pengős for the erection of approximately 43,000 family homes in villages up to 1940.

Building activities of the OTI.

The largest social insurance company in the country invests its old age and disability reserve funds in building loans. Among the results of its widespread activities in this field, the following may be mentioned: at Albertfalva a garden city was built, in the XIIIth district of Budapest 752 family homes were built for workers, and another garden city was built at Pócsmegyer, several large apartment houses being erected by the society, housing thousands of people.

652 *Building activities of the MABI.*

342 The Insurance Board of Business Employees plays an
• 452 important part in housing projects. Its investments in housing amount to 17 or 18 million pengős.

Capital City of Budapest.

The Capital City of Budapest borrowed 20 million pengős from social insurance companies to build 3000 small homes, half of which are already completed.

National Folk and Family Protection Institute.

This family protection project, the largest undertaken by the Hungarian Government, built 5000 homes in the first and 6000 in the second year it was functioning. The details of this organization will be given later.[1]

Industrial Retirement Boards.

The more important industrial retirement boards have invested 100 million pengős up to date in buying and building houses, and in loaning money on mortgages.

000 Besides carrying out long-term plans, the public policy was flexible enough to meet any unforeseen contingency. We have already dealt with the problems of post-war unemployment, and with the social and economic problems of the educated classes. In conclusion we shall relate how the public welfare policy coped with emergencies, some of which were disasters due to the elements, and some the result of exceptional times. Most of these problems had to be solved promptly by the state and society working together.

1/ [cf. category 116, pp. 46-47--- Analyst]